

Why 50, 50 and 100 might be the most important numbers for the GCC in 2008

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2008 is already a historic year. For the first time in history, more people will live in cities than rural areas. Not only that, this year we will see more investments into urban infrastructure, more people will move into cities and almost all the population growth will take place in expanding cities. As urbanization is converging with trends like rapidly growing emerging economies and high oil prices, both great challenges and opportunities arise for the GCC. In this process strategic and transparent reporting on economic, environmental, and social impact for GCC companies is an absolute urgency in order for the region to be seen as credible actors.

This article is a follow up on the WWF report “Arab Companies in the 21st Century” which was released in December 2006 and outlined three critical converging trends which could potentially redefine the role of the Arab World in the global economy; population growth in cities, the rapid rise of emerging economies and increased oil revenues. About a year later, these three trends have only increased in importance.

- 1. Rapid urbanization** has led to the historic moment in 2008 when we will see more than 50% of humanity living in cities. Never before have more people lived in urban areas than rural. In two decades, the urban population will have increased with more than one third of today’s entire global population.ⁱ How companies will help to ensure that this historic migration will be sustainable is of crucial importance.
- 2. Rapid growth in emerging economies** will not only lead to China and India becoming two of the world’s dominating economies in the coming decades, but also massive investments in infrastructure. 50% of the world’s buildings under construction are being built in China.ⁱⁱ How companies will ensure that the investment in infrastructure will be resource efficient and provide inhabitants with high quality of life are not only a matter of saving the planet, but it will also help us avoid conflicts over natural resources.



3. **High oil prices** reaching the threshold of US\$ 100 and keeping on a high level in 2008 could redefine the global positioning of the GCC in the world. Between 2004 and 2008, the cumulative additional export revenue (relative to the 2001-02 level) from oil and gas for the Middle East and Central Asian oil-exporting countries' will amount to almost US\$ 2 trillion.ⁱⁱⁱ In the report, *Arab companies in the 21st Century*, we quoted the January 2006 average oil price of US\$ 60.^{iv} Two years later, already on the second day of 2008 crude oil reached US\$ 100 on the New York Merchantile exchange.^v This was not really seen as much of a surprise when it happened, even though it meant that one of the predictions for things to happen in 2008 by papers such as the Financial Times came true already on the second day.^{vi}

Global Challenges – Local Opportunities

The magic US\$ 100 mark will not really matter to the world economy however, US\$ 90 or 110 does not really matter and many point out that consumers have simply gotten used to high oil prices and learned to live with it. Investments into commodities are even more than before seen as a safe way to get quick and high returns of investment. Of course, from a short term perspective, oil exporting countries will benefit from the high oil price. From another perspective, however, a high oil price does not only run the risk of driving inflation but as the Economist writes: “The world does not have the resources for another 5 billion people or so to behave the way that Americans do today”.^{vii}

Global energy and natural resource use is increasing rapidly, with energy demand expected to increase by more than 50 percent in two decades if current trends continue.^{viii} Significant is also the fact that emerging economies are still only modest users of natural resources per capita.

At the same time, the world needs a dramatic reduction of CO₂ emissions. According to scientists we must reverse a more than 150 year old trend of almost exponential growth of global CO₂ emissions to avoid a climate catastrophe. The window of opportunity is less than a decade.^{ix}

In the *Arab companies in the 21st Century* report, 88% of companies expressed their support for more rigorous regulations regarding environmental reporting, transparency and monitoring for large companies.^x This holds an opportunity for the GCC to ensure local companies to widen their scope from reporting on internal to external impacts and innovative reporting on CO₂ reductions as a driver for innovation and profit.^{xi}



As financial services companies continue to dominate the top 100 companies list in the Middle East,^{xii} the opportunity for the GCC to position themselves for strategic sustainable investments, while oil revenues remain high, holds enormous potential for 2008. Financial actors in the region should start by following financial reporting standards and especially link their sustainable urban investments to support emerging economies.

Short term perspective increase challenges

In the short term, financial actors look at good investment opportunities as high return of investment as quickly as possible, but as a new world economy is taking shape, there will be an inevitable transition to a low carbon economy. Even short term investments need to be made taking this into account. Today in 2008, Arab investments could choose to support unsustainable practices and increased resource consumption or position investments into those companies who will become winners in a low carbon transition, taking the lead in this development.

Current discussions on resources under pressure often evolve around energy and whether OPEC will have future challenges to meet demand. Perhaps the question is not so much about meeting demand however (as this has already today been shown to be impossible for the coming decade if we are to avoid a climate catastrophe), but rather one of positioning and strategic investments facing an inevitable changing demand?

Long term perspective grasping opportunities

Changing perspective to one of long term thinking, beyond traditional quarterly financial reports, paints a very different picture to what most of us are used to. No business as usual scenario will be able to supply the global economy with resources for economies to grow in unsustainable practices as there simply will not be enough resources to go around.

In parallel to urban explosions, energy consumption of buildings has been identified as an urgent megatrend in need of transformation. Today, buildings use about one third of global energy and with population growth and urbanization that number will rise. By 2025, following current unsustainable trends, buildings will be the main users of energy. And if the trend continues buildings are likely to use as much as industry and transport combined by 2050.^{xiii}

Urbanisation, including the construction of new buildings, will be key in driving future technology development and institutional innovation, and the way that China and India adopt



new urban solutions will drive this development, not only in the two countries, but also on a global scale. The GCC economies could drive strategic developments in this area as they control some US\$ 1.7 trillion and are predicted to grow US\$ 400 billion annually in the coming years^{xiv}.

This year at the World Economic Forum annual meeting in Davos, Switzerland, the large IT companies of the world agreed on a statement where they stated their intention to become winners in a low carbon economy. This included world leaders like Bill Gates (Microsoft), Michael Dell (Dell) and Eric Schmidt (Google) agreeing on a vision for the future shaped by converging trends like population growth, urbanization and climate change and that they could turn these challenges to opportunities and use them to drive profit and innovation. They agreed on the importance of their sector to provide solutions helping cities become less resource intense.

It becomes very important for companies to report in a structured way to ensure that the financial actors can identify those that support a low carbon transition. GCC companies, especially construction and Telecom/IT companies could start to report on how they can become winners in a low carbon economy.

The fundamental link to emerging economies

Almost three quarters (72%) of the companies who answered the questions to the *Arab companies in the 21st Century* report expressed a willingness to cooperate with an organization such as an NGO in order to promote sustainable development within the UAE, as well as internationally. Actors such as the Global Reporting Initiative and the Carbon Disclosure Project should do their best to support these progressive companies to start looking at their reporting. In order to become an active part in the changing world economy, leading Arab companies must ensure that they do not only report, but also take an active role in the formulation of the frameworks as they evolve over time.

Critical to a sustainable development is then strategic links and investments to support emerging economies such as China and India, to ensure that business models and corporate strategy takes current trends of population, and resource constraints, into account and enable a transition towards a low carbon economy. Tomorrow's key services needed should be outlined along with innovative infrastructure investments. As more and more investments are going to private equity in the GCC^{xv}, this opens up for a historic moment and opportunity to reclaim the historic importance of the region.



To conclude: Sustainable reporting will play an important role if Arab companies want to have an active role and secure a long term profitable development where we avoid a climate catastrophe and war over natural resources. It is also crucial if the companies are to ensure a leading role in providing the emerging markets with goods and services over time. For Arab companies, as well as the citizens in the GCC region, the issue of sustainable reporting should be seen as part of those strategic decisions that long-term will decide if the Gulf region will be remembered as a place that created havoc, suffering and climate catastrophe, or if it will be remembered as a leader in the transition to an innovative society, without poverty, where the human race can live in harmony with nature.

“Today, this region is at a major crossroads and everyone who shares this space must make a life changing decision. There is no time to waste. Will we take the path that leads us forward to peace and prosperity; the path of knowledge? Or are we prepared to hang on the coat tails of those who would transport us back to a time of savagery and darkness that existed before the great civilisations that were founded here - Levantine, Assyrian, Babylonian, Sumerian, Canaanite, Egyptian and Islamic.”

Khalaf Al Habtoor, written in Gulf News, 10 January 2008

ⁱ http://www.un.org/esa/population/publications/WPP2004/WPP2004_Volume3.htm

ⁱⁱ <http://www.wbcsd.org/Plugins/DocSearch/details.asp?DocTypeId=251&ObjectId=MjQ0NTA&URLBack=/templates/TemplateWBUSD5/layout.asp?type=p&MenuId=MTA5Nw>

ⁱⁱⁱ <http://www.imf.org/external/pubs/ft/survey/so/2007/CAR1030A.htm>

^{iv} Arab companies in the 21st Century, p.6

^v <http://www.guardian.co.uk/business/2008/jan/02/oil>

^{vi} http://www.ft.com/cms/s/3052eeac-b742-11dc-aa38-0000779fd2ac,Authorised=false.html?i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2F3052eeac-b742-11dc-aa38-0000779fd2ac.html%3Fclick_check%3D1&i_referer=http%3A%2F%2Fblogs.ft.com%2Fenergyfilter%2F&nclick_check=1

^{vii} The Economist, A survey of the world economy, September 16, 2006

^{viii} <http://www.iea.org/Textbase/nppdf/free/2006/Key2006.pdf>

^{ix} <http://environment.guardian.co.uk/climatechange/story/0,,2073006,00.htm>

^x Arab companies in the 21st Century, p.65

^{xi} See the WWF and Carbon Disclosure Project's activities exploring new tools of reporting in the "Winners in a low carbon economy" initiative

^{xii} Neil Ford, "Closing the gap in the Middle East", *The Middle East*, December 2007, p.52

^{xiii} <http://www.wbcsd.org/Plugins/DocSearch/details.asp?DocTypeId=251&ObjectId=MjYyODg>

^{xiv} Emily Thornton and Stanley Reed, "Who's afraid of Mideast money?", *Businessweek*, January 21, 2008, p.44

^{xv} Ibid, p.46

